DOCUMENT RESUME

ED 448 281 CE 081 040

AUTHOR Westin, Susan S.
TITLE Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs. Report to the Chairman and Ranking Minority Member, Committee on Finance, U.S. Senate.
INSTITUTION General Accounting Office, Washington, DC.
REPORT NO GAO-01-59
PUB DATE 2000-10-00
NOTE 45p.
AVAILABLE FROM U.S. General Accounting Office, P.O. Box 37050, Washington, DC 20013. Tel: 202-512-5000; Web site: http://www.gao.gov (first copy free; additional copies $2.00 each; 100 or more: 25% discount).
PUB TYPE Reports - Evaluative (142)
EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS Adult Education; Comparative Analysis; Delivery Systems; *Dislocated Workers; Educational Legislation; Educational Needs; Educational Policy; Educational Trends; Enrollment Trends; Federal Legislation; *Federal Programs; Financial Support; Manufacturing Industry; Needs Assessment; Outcomes of Education; Participation; Policy Formation; *Program Effectiveness; Public Policy; Relevance (Education); *Retraining; *Skilled Occupations; Transitional Programs; Trend Analysis; *Vocational Education
IDENTIFIERS North American Free Trade Agreement; *Trade Adjustment Assistance Program

ABSTRACT

To assess the effectiveness of the Trade Adjustment Assistance and North American Free Trade Agreement (NAFTA) Transitional Adjustment Assistance programs, the General Accounting Office (GAO) reviewed available Department of Labor program data and surveyed 20 states representing about 76% of all workers certified under the two programs in fiscal years 1994-1999. The number of workers certified under the programs peaked at about 228,000 in 1999. Program services and benefits payments during the 5 years totaled $1.3 billion. Limited data on program outcomes during and after program participation made it difficult to evaluate the programs' effectiveness. It was recommended that the Trade Adjustment Assistance program be expanded to include secondary workers who supply inputs to firms adversely affected by trade and to workers who lose their job because an employer shifted production to any country outside the Untied States. The following issues affecting delivery of assistance to trade-impacted workers were identified: standardizing worker eligibility rules, placing time limits on training enrollment, and improving program administration. (The following items are appended: characteristics of 1999 program benefit recipients; objectives, scope, and methodology of the GAO assessment; comments from the U.S. Department of Labor; and list of GAO contacts and staff acknowledgments.) (MN)

Reproductions supplied by EDRS are the best that can be made
from the original document.

CE

United States General Accounting Office

GAO

Report to the Chairman and Ranking Minority Member, Committee on Finance, U.S. Senate

October 2000

ED 448 281

TRADE ADJUSTMENT ASSISTANCE

Trends, Outcomes, and Management Issues in Dislocated Worker Programs

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☑ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

GAO
Accountability • Integrity • Reliability

BEST COPY AVAILABLE

GAO-01-59

2

Contents

Letter 3

Appendixes

Appendix I: Characteristics of Trade Adjustment Assistance-Certified Workers Who Received Program Benefits, Fiscal Year 1999 30

Appendix II: Objectives, Scope, and Methodology 31

Appendix III: Comments From the U.S. Department of Labor 35

Appendix IV: GAO Contacts and Staff Acknowledgments 41

Related GAO Products 42

Tables

Table 1: TAA and NAFTA-TAA Petitions Determinations, Approvals, and Certified Workers, Fiscal Years 1995-99 10

Table 2: TAA and NAFTA-TAA Payments and Service and Benefit Recipients, Fiscal Years 1995-99 12

Table 3: Trade Adjustment Assistance Program Outcomes for Workers Who Participated in Training or Had Waivers, Fiscal Year 1999 18

Table 4: Estimates of the Impact of Extending Trade Adjustment Assistance to New Worker Groups—Projection 2001-2005 Annual Average 19

Table 5: Comparison of the TAA and the NAFTA-TAA Programs 22

Figures

Figure 1: History of the Trade Adjustment Programs for Displaced Workers, 1962-2000 7

Figure 2: Trade Adjustment Assistance Benefit Utilization, Fiscal Years 1995-99 13

Abbreviations

NAFTA	North American Free Trade Agreement
TAA	Trade Adjustment Assistance

GAO
Accountability • Integrity • Reliability

United States General Accounting Office
Washington, D.C. 20548

October 13, 2000

The Honorable William V. Roth, Jr.
Chairman
The Honorable Daniel Patrick Moynihan
Ranking Minority Member
Committee on Finance
United States Senate

Concerns about the effects of the globalization of national economies and the rapid pace of economic change have focused attention on federal programs designed to assist U.S. workers displaced by foreign trade and increased imports. Federal efforts to provide such assistance began with the Trade Expansion Act of 1962. They were enhanced by the Trade Act of 1974 and the North American Free Trade Agreement Implementation Act of 1993. The Trade Adjustment Assistance program covers workers who lose their jobs or are threatened with job loss because of imports from any country, while the North American Free Trade Agreement Transitional Adjustment Assistance program covers only workers who have lost jobs because of increased imports from, or shift of production to, Mexico or Canada. Workers can be certified under both programs but must choose one from which to claim benefits. [1] These programs aim to help workers to obtain new jobs by providing benefits such as trade readjustment allowances (extended income support), job training, and job search and relocation allowances. The Department of Labor administers both programs and makes determinations regarding worker group eligibility. The states play a major role by providing program services and benefits, such as job training and reemployment services.

For fiscal year 2000, Congress provided $349 million for the Trade Adjustment Assistance program and $66 million for the North American Free Trade Agreement Transitional Adjustment Assistance program. There have been recent congressional and administration proposals to merge these programs and extend coverage and increase funding for job training.

You asked us to assess how these two programs have met the needs of workers affected by greater foreign trade and increased imports and to identify potential program improvements. Our specific job objectives were

[1]Certification establishes eligibility for workers to apply for services and benefits under these programs.

to examine (1) the recent trends in worker certifications and the extent to which program services and benefits have been used, (2) the extent to which the program helped workers become reemployed and maintain prior wages, (3) the budgetary implications of extending program benefits to new groups of workers, and (4) program structure and management issues affecting the delivery of assistance to trade-impacted workers.

To address these objectives, we surveyed 20 states representing about 76 percent of all workers certified under these programs between October 1, 1994, and December 31, 1999; analyzed available Department of Labor program data on services and benefits provided to certified workers; and identified the potential impact of expanding the program under different economic assumptions. For further information on our scope and methodology, see appendix II.

Results in Brief

The industry with the largest number of trade adjustment certifications from fiscal years 1995 to 1999 was apparel and textiles. During this period, the estimated number of workers certified under the Trade Adjustment Assistance and the North American Free Trade Agreement Transitional Adjustment Assistance program generally trended upward and reached a high of about 228,000 in fiscal year 1999. Program services and benefits payments during these five fiscal years totaled $1.3 billion, about 70 percent of which was used to pay for trade readjustment allowances (extended income support), 30 percent for training, and less than 1 percent for job search and relocation benefits. Training participation rates under the Trade Adjustment Assistance program fell from 31 percent of eligible beneficiaries in fiscal year 1995 to 18 percent in fiscal year 1999 though the number of actual participants in the program increased. While the declining trend in the training participation rate may be due in part to the low overall U.S. unemployment rate and high economic growth during the late 1990s, some states also reported that they have established training waiting lists or have suspended training due to Department of Labor funding delays.

Limited data on program outcomes regarding reemployment and wage maintenance during and after program participation make it difficult to evaluate the programs' effectiveness. The programs' goal is that 72 percent of participants will find employment upon leaving a program. Labor Department data gathered from about 6,000 individuals who left a program in fiscal year 1999 indicate that 75 percent found employment. However, our analysis found that only 56 percent of those workers earned 80 percent or more of their preseparation wage. Wage and employment outcomes for

workers who received training, however, were better than for participants who had training waivers[2] and did not take training.

According to our analysis, expanding the Trade Adjustment Assistance program to include two groups currently not covered—secondary workers who supply inputs to firms adversely affected by trade or workers who lose their job because an employer shifted production to any country outside the United States (as opposed to Mexico or Canada only)—could add an estimated 34,000 to 211,000 workers annually between 2001 and 2005 and cost from $89 million to $554 million per year. These estimates are highly sensitive to changes in the assumptions about the rate of growth in the programs, the level of training enrollment, the definition of "secondary workers," and the potential impact of recently approved trade legislation.

We identified three issues that affect the delivery of assistance to trade-impacted workers: standardizing worker eligibility rules, placing time limits on training enrollment, and improving program administration. Standardizing eligibility rules was consistently cited by state and federal officials as likely to make the programs easier to administer and less confusing to workers. For example, the programs currently have different rules for qualifying for income support (time frames to begin training, and obtaining training waivers) as well as for conducting certification investigations. As a result, workers' transition and training options may be limited in some cases. In addition, certification investigations are not always completed within required time frames, potentially delaying workers' transition to employment and retraining opportunities. We also identified internal control weaknesses that may have resulted in states providing $2.3 million in benefits to ineligible workers from fiscal year 1997 through fiscal year 1999.

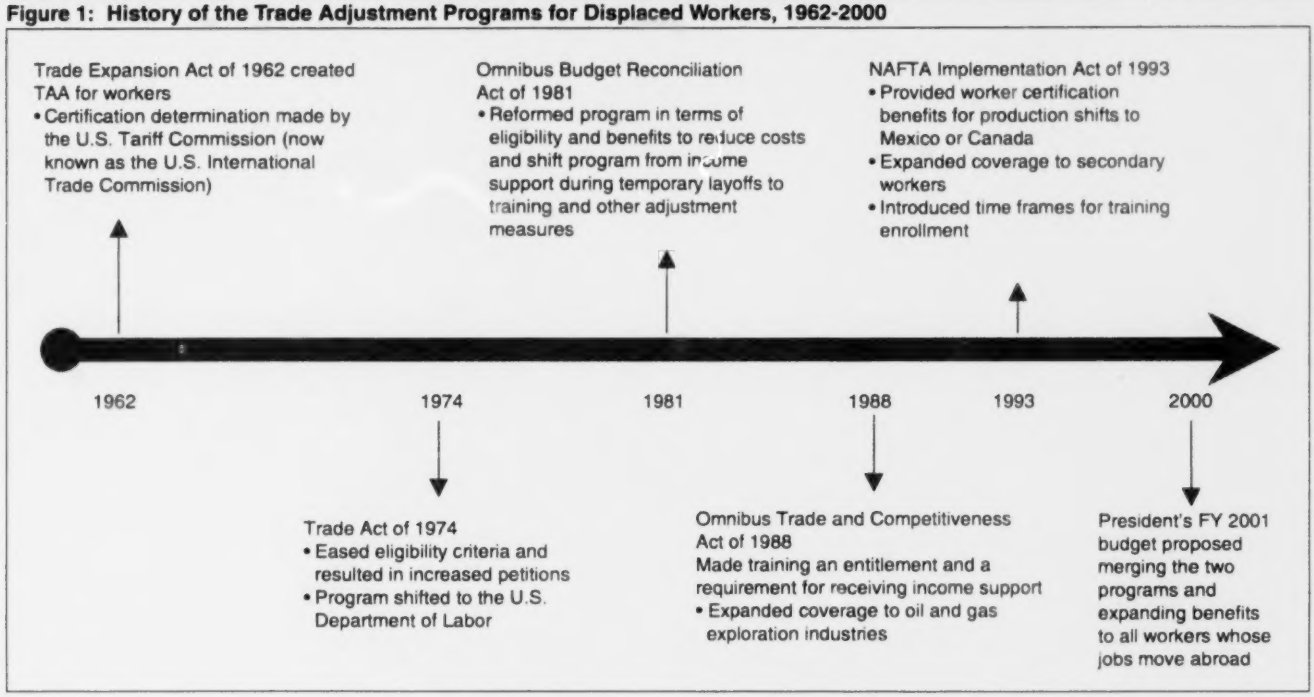
This report contains matters for congressional consideration regarding the standardization of benefits. It also contains recommendations to the Secretary of Labor to improve program management. In written comments on a draft of this report, the Department of Labor generally agreed with our findings.

[2]Training waivers may be provided to workers when training is unavailable, inappropriate, or for other reasons.

Background

The current Trade Adjustment Assistance program (TAA) was created by the Trade Expansion Act of 1962 (P.L. 87-794) and substantially modified by the Trade Act of 1974 (P.L. 93-618). The North American Free Trade Agreement Transitional Adjustment Assistance program (NAFTA-TAA) was created by the North American Free Trade Agreement Implementation Act (P.L. 103-182). Both are entitlement programs. Since it began, TAA has shifted from a program that was little used in the 1960s to a program covering manufacturing, particularly steel and automobile industries in the late 1970s to early 1980s, and light industry and apparel workers in the mid- to late-1990s. The estimated number of workers covered by program certifications peaked at almost 705,000 in fiscal year 1980, largely a reflection of layoffs experienced in the auto and steel industries. Figure 1 presents a time line showing key program milestones since 1962.

Figure 1: History of the Trade Adjustment Programs for Displaced Workers, 1962-2000


Trade Expansion Act of 1962 created TAA for workers
• Certification determination made by the U.S. Tariff Commission (now known as the U.S. International Trade Commission)
Omnibus Budget Reconciliation Act of 1981
• Reformed program in terms of eligibility and benefits to reduce costs and shift program from income support during temporary layoffs to training and other adjustment measures
NAFTA Implementation Act of 1993
• Provided worker certification benefits for production shifts to Mexico or Canada
• Expanded coverage to secondary workers
• Introduced time frames for training enrollment
1962
1974
1981
1988
1993
2000
Trade Act of 1974
• Eased eligibility criteria and resulted in increased petitions
• Program shifted to the U.S. Department of Labor
Omnibus Trade and Competitiveness Act of 1988
Made training an entitlement and a requirement for receiving income support
• Expanded coverage to oil and gas exploration industries
President's FY 2001 budget proposed merging the two programs and expanding benefits to all workers whose jobs move abroad

Legend
FY= Fiscal year

Source: Gregory K. Schoepfle, "U.S. Trade Adjustment Assistance Policies for Workers," *In Social Dimensions of U.S. Trade Policies*, A.V. Deardorff and R.M. Stern, eds. (Ann Arbor, MI: University of Michigan Press, 2000), pp. 100-103.

Certification Procedures

Becoming certified to receive TAA benefits requires meeting several criteria specified in the law. The process begins when a group of workers or their representative petitions the Department of Labor for certification of eligibility to apply for services and benefits under the program. The Department then conducts an investigation to determine if increased imports have contributed to the loss of employment. The investigation focuses on whether (1) a significant number of workers have lost their jobs or are threatened with job loss, (2) the company's sales or production has decreased, and (3) imports of articles "like or directly competitive" have increased and "contributed importantly" to both the total or partial separation of workers and to the decline in sales or production.

The NAFTA-TAA certification process is similar to that of TAA, but there are some important differences. To be certified for benefits, workers generally must have lost their job or be threatened with job loss because of (1) increased imports from Canada or Mexico or (2) a shift in production by the workers' firm to Mexico or Canada. After NAFTA-TAA was implemented in 1994, the administration issued a Statement of Administrative Action in which the administration made a commitment to provide adjustment services to workers in firms that are indirectly affected by imports from Mexico or Canada. These "secondary" workers receive assistance under the Workforce Investment Act.[3] In addition, family farmers may apply for NAFTA-TAA certification.

According to Department of Labor officials, the most complex aspect of the TAA and NAFTA-TAA certification investigation is determining whether imports have "contributed importantly" to sales and production declines. To evaluate whether this certification criterion has been met, Department investigators may survey up to six of the firm's major declining customers to determine whether their reduced purchases from the firm were accompanied by increased imports of like or directly competitive products. These investigations go back to the 2 most recent full years, and the year–to-date statistics are compared to the same period of the previous years. [4] A certification petition may be approved if a firm's customer or a firm's own imports increased either absolutely or relative to production in either the most recent years or in the year to date compared to the same period of the previous year. According to Department of Labor officials, only in cases where firms are no longer in business or surveys are impractical are overall import data consulted to make certification decisions.[5]

[3]P.L. 105-220, Sec. 173, August 7, 1998. If Labor makes a determination that the worker group is secondarily affected, the workers receive the same services and benefits as provided under NAFTA-TAA though they receive benefits under the Workforce Investment Act.

[4]For more information on certification procedures, see *NAFTA-TAA Program: Certification Criteria, Procedures, and Activity* (GAO/NSIAD-98-51R, Nov. 4, 1997).

[5]There is some concern that economic changes have made it more difficult to apply the legislative test that imports have contributed importantly to real or threatened job loss, particularly in industries with a high level of import penetration and in which imports are no longer increasing. Department of Labor officials said focusing on import competition faced by individual firms rather than macroeconomic indicators such as import penetration alleviates the difficulty of applying the test that imports contributed importantly to job losses.

Eligibility Requirements

Once a TAA or NAFTA-TAA petition has been approved, covered workers must meet several tests in order to be eligible for benefits: (1) the worker must have been laid off for lack of work on or after the date that imports first led to separations at the firm as determined in the certification investigation and on or before the expiration of the certification; and (2) in order to qualify for the trade readjustment allowance, the worker must have had at least 26 weeks of employment at wages of $30 or more a week with an affected firm or a subdivision of a firm in the year prior to separation. Workers certified as eligible for both programs must choose only one as a source of services and benefits.

Program Services and Benefits

The programs provide a range of services and benefits to help displaced workers find jobs. The trade readjustment allowance under both programs is equal to the weekly benefits of the state unemployment insurance programs[6] and may be paid for up to 52 weeks after the regular unemployment benefits have been exhausted. Thus, a worker certified for trade adjustment assistance can receive up to 78 weeks of cash payments if enrolled in approved training. Under both programs, an individual can also receive a total of 104 weeks of training. Job search ($800 maximum benefit) and relocation allowances (90 percent of allowable charges, with no dollar limit) are also available.

Recent Trends in Trade Adjustment Certifications and Use of Services and Benefits

In fiscal years 1995 through 1999, the estimated number of workers covered by certifications under both trade adjustment programs averaged about 167,000 annually and reached a high of about 228,000 in 1999. During this period, about 40 percent of workers certified had been employed in the apparel and textile sectors, and relatively few secondary and agricultural workers were certified under NAFTA-TAA. Payments made for adjustment benefits available under the programs—trade readjustment allowances, training, relocation, or job search—totaled just over $1.3 billion. Overall, higher numbers of workers took basic trade readjustment payments than enrolled in training, while job search and relocation benefits were used by fewer than 1 percent of certified workers.

[6]Unemployment benefits vary widely among states. In 1999, the maximum weekly unemployment insurance benefits ranged from $133 in Puerto Rico to $410 in Washington State. The average benefit that year was estimated to be $202.

Worker Certification Trends—Fiscal Years 1995 Through 1999

As shown in table 1, petitions under the TAA and NAFTA-TAA programs covered an estimated 833,000 workers during the fiscal year 1995-99 period (573,000 under TAA and 260,000 under NAFTA-TAA).[7] Department of Labor officials said they were surprised by the increase in certified workers in 1999 but unsure of its cause. Many worker groups file for certification under both programs. Department of Labor officials estimate 75 percent of NAFTA-TAA certified workers are also covered by TAA petitions. Such workers would be counted twice in the overall program totals.

Table 1: TAA and NAFTA-TAA Petitions Determinations, Approvals, and Certified Workers, Fiscal Years 1995-99

	1995	1996	1997	1998	1999	Total
Petition Determinations	2,092	2,318	2,115	2,230	3,450	**12,205**
Petitions Approved						
Number	1,491	1,575	1,311	1,343	2,155	**7,875**
Percent	71%	68%	62%	60%	62%	64%
Total workers certified	118,837	166,310	165,898	153,804	227,650	832,499

Source: GAO analysis of Department of Labor data.

The Department of Labor made a determination of certification eligibility for a total of 12,205 TAA and NAFTA-TAA petitions under these programs during this period (8,554 TAA petitions and 3,651 NAFTA-TAA petitions). Combined, the Department of Labor approved 64 percent of the petitions. Most certified petitions were initiated by worker groups, followed by employers and unions. From fiscal years 1995 through 1999, these certifications covered workers in apparel and textiles (35 percent), oil and gas (15 percent), electronics (9 percent), and metal and machinery (8 percent); the remaining petitions were disbursed among a range of manufacturing industries. Secondary workers, who produce products indirectly affected by imports, can also receive benefits. Since the program was implemented in 1994, the Department of Labor has approved 58 secondary petitions (more than 2,000 NAFTA-TAA petitions were approved during this period) covering a total of 3,718 workers.

[7]These certifications represent potentially affected workers—not actual jobs lost. In some cases, workers certified were facing the potential loss of their job and were not laid off. Thus, program certifications are not an accurate count of job losses due to trade.

While certifications have been spread broadly across the country, the states with the most worker certifications during fiscal years 1995-99 were North Carolina, Texas, and Pennsylvania, accounting for 22 percent of TAA and 27 percent of NAFTA-TAA certifications, respectively.

Trends in Benefit Utilization

As shown in table 2, the largest benefit delivered to displaced workers was in the form of extended income support, primarily to allow them partial wage replacement while taking training. The two programs paid a total of $663.6 million over the 5-year period for basic allowances, which are payments made in the first 26 weeks after unemployment benefits have been exhausted, and $239.7 million in additional allowances, which are payments made after the basic allowance has been exhausted. Training courses, which can last up to 104 weeks, cost $390 million, and job search and relocation allowances totaled $9 million over the 5-year period. Most state officials we surveyed said job search and relocation benefits have not been heavily utilized because workers are reluctant to move to new areas, primarily because of family commitments or ties to the community.

Table 2: TAA and NAFTA-TAA Payments and Service and Benefit Recipients, Fiscal Years 1995-99

Dollars in millions	1995	1996	1997	1998	1999	Total
Total workers certified[a]	118,837	166,310	165,898	153,804	227,650	832,499
Basic llowance						
Payments	$109.5	$127.8	$148.0	$119.2	$159.1	$663.5
Recipients	25,641	32,856	34,158	26,241	36,910	155,806
Additional allowance						
Payments	$41.6	$43.6	$53.6	$50.2	$50.7	$239.7
Recipients	5,856	7,132	15,215	7,736	8,166	44,105
Training						
Costs	$60.9	$68.5	$83.4	$79.9	$97.3	$390.0
Recipients	28,645	32,971	26,865	25,235	32,120	145,836
Job search						
Costs	$0.3	$0.3	$0.2	$0.1	$0.1	$0.9[b]
Recipients	927	752	520	289	314	2,802
Job relocation						
Costs	$2.8	$1.8	$1.7	$.8	$1.0	$8.1
Recipients	1,678	940	875	473	771	4,737
Total service and benefit payments	$215.1	$242.0	$286.9	$250.2	$308.2	$1,302.3

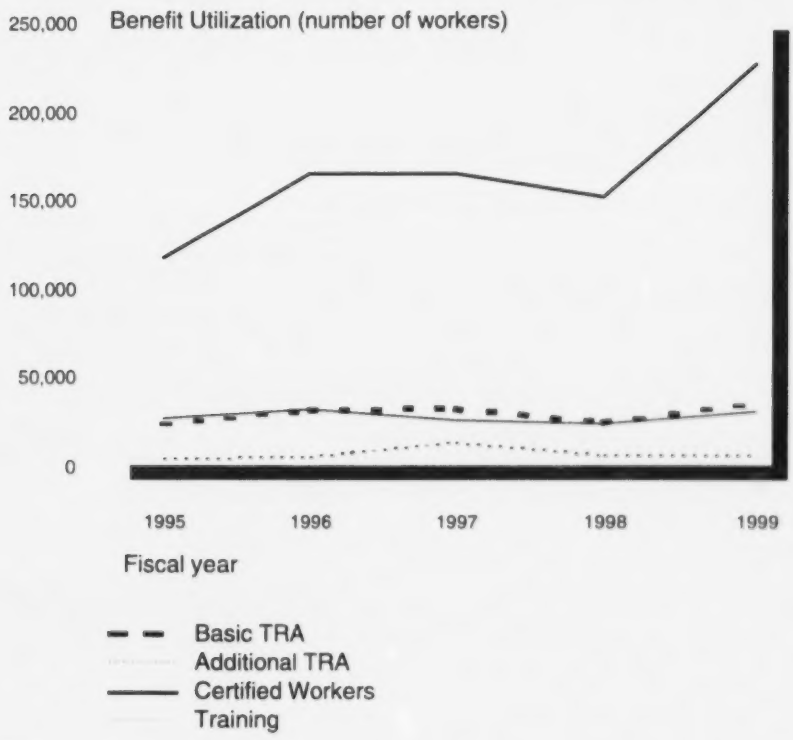
[a]These figures include workers certified under both programs.

[b]Does not add due to rounding.

Sources:GAO analysis of Department of Labor data collected quarterly from the states. Readjustment allowance and training recipients may appear in quarterly reports spanning more than one fiscal year. Likewise, workers could have received more than one type of benefit in a fiscal year.

Figure 2 presents trends in service and benefit utilization for fiscal years 1995 through 1999. From fiscal years 1995 through 1999, the total number of workers receiving trade adjustment assistance services and benefits generally increased. However, due to a sharp increase in the number of eligible workers in fiscal year 1999, the percentage of workers using benefits available to them declined. TAA training enrollment, for example, declined from 31 percent in fiscal year 1995 to 18 percent in 1999. Department of Labor officials said they were surprised by the increase in TAA-certified workers in 1999, but they were not sure of its cause.

Figure 2: Trade Adjustment Assistance Benefit Utilization, Fiscal Years 1995-99



Legend
TRA= Trade Readjustment Allowance

Source: GAO analysis of Department of Labor data.

Workers' Training Needs Vary

In fiscal year 1999, occupational training was the most common type of training provided under the two programs. States we surveyed enrolled eligible workers in different types of occupational training. Computer and information system skills and office and business administration were the most popular training programs, with 14 states of 20 listing them in their top three occupational course offerings to trade-impacted workers; medical skills, including nursing, was listed among the top three training courses by 9 states; and 6 states listed English as a second language or remedial education in the top three training courses offered. State officials said that much of this training was provided by community colleges, which have lower costs than private training vendors.

Some states have large numbers of program beneficiaries who require English as a second language or high school equivalency training before they are prepared to undertake occupational training or reenter the job market. Department of Labor data indicate that about 20 percent of workers who left these programs in fiscal year 1999 described themselves as having limited English proficiency at time of layoff, and 75 percent had a high school degree or less at time of layoff (see app. I for additional data on program participants). In San Fernando, California, state employment officials told us that most of the available jobs require a high school degree. Since most of the trade-impacted workers served by the San Fernando office do not speak English well and have low education levels, they also require English as a second language and high school equivalency classes before they can qualify for available jobs. Texas officials told us that most program beneficiaries—who had primarily been employed in the apparel industry—mainly require training such as English as a second language before they can be admitted to occupational training.

Factors Contributing to Low Training Enrollment

We identified several possible factors influencing the use of the trade adjustment training benefits from the mid- to late-1990s, focusing on training waivers, funding shortfalls, and recent economic conditions. Under TAA, workers can obtain a training waiver, which permits them to collect cash payments without enrolling in classes. For example, states can grant temporary waivers if training is unavailable or will not begin within 30 days, or if funding is not available. States can also issue waivers to workers with marketable skills for whom jobs are thought to be available. According to Department of Labor data, 38 percent of TAA participants who left the program in 1999 received some type of waiver. Training waivers are not permitted in NAFTA-TAA. A prior review of TAA[8] by the Labor Department's Inspector General in 1993 uncovered training waiver abuses and, in response, the Department of Labor has tightened controls over the waiver granting process, although the effect of these controls have not been evaluated. In a survey of 12 states conducted by the Department in early 2000 regarding TAA and NAFTA-TAA, 11 said that they were conducting training waiver reviews. The Department does not systematically collect information on the number of training waivers issued to individuals and their duration, however.

[8]*Trade Adjustment Assistance (TAA) Program, Audit of Program Outcomes in Nine Selected States, Fiscal Years 1991/1992* (Washington, D.C.: U.S. Department of Labor, Office of Inspector General, Sept. 30, 1993.)

Some state officials we surveyed said that training can be influenced by funding shortfalls. New Jersey, for example, said that the state has had to shut down the training program at the end of quarters until new funding arrived. According to a 2000 Department of Labor survey conducted with 12 states regarding the trade programs, 4 states have waiting lists for training. Some states also said that the Department of Labor does not provide enough funding for them to adequately administer the training programs. The Department currently allocates 15 percent of a state's total annual training budget to administer the program. About one-third of the state officials we surveyed said that this was not enough to cover program administrative costs. State officials also noted that training funds are sometimes exhausted before the end of the quarterly disbursement period (Department of Labor officials said these problems primarily occur in the first and last quarters of the fiscal year). When this happens, states may apply for funding, such as National Emergency Grants made available by the Secretary of Labor; put workers on waiting lists; or suspend the training program. Although the Department has issued formal guidance that states should not stop enrolling workers in program services and benefits, agency officials report that a few have done so.

Another reason for training enrollment declines in the mid- to late-1990s may have been the strong U.S. economy during this period. In the late 1990s, the United States experienced the lowest unemployment rates in 30 years, as reported by the Bureau of Labor Statistics, which indicates that workers are finding new jobs quickly. Thus, it seems plausible that under these circumstances, enrollment in training under TAA and NAFTA-TAA for some workers has been less necessary to secure new employment.

Limited Performance Data Indicate Some Reemployment Success

It is unclear whether the TAA and NAFTA-TAA programs have met the Department of Labor's reemployment and wage retention goals for all workers, due to limited data on program outcomes. The Department and states have had long-standing problems in tracking and using information on trade adjustment assistance services, benefits, and results. Available data for workers who left the program in 1999 and for whom states submitted information, indicate that 75 percent were reemployed, exceeding the program goal of 72 percent. However, our analysis indicated that many of these workers earned less than 80 percent of their prior wages.

Program Tracking Systems Do Not Adequately Measure Results

The Department of Labor and states have had long-standing problems in tracking TAA and NAFTA-TAA benefits and results. In 1993, we reported that the TAA program lacked the basic tracking system needed to ensure that assistance is provided effectively and efficiently.[9] We noted that the program had no performance goals, so there was little impetus for states to track participant progress or program performance. That same year, the Department's Inspector General recommended that objectives and performance standards be developed to evaluate program effectiveness.

The Department of Labor and the states have made progress in addressing the deficiencies noted by the Inspector General and us. In 1999, the Department established performance goals for the TAA and NAFTA-TAA programs. It also instituted a system for states to track assistance provided to participants as well as their employment and wages after leaving the program. Some problems persist, however, in the Department of Labor's tracking of program performance. Several states did not submit information on participants in fiscal year 1999, and many other states submitted only partial information.[10] Several state officials indicated that they do not collect the necessary information from participants as the data were not readily available and there were no additional resources for expanding data collection efforts. Many of the records in the 1999 database lacked information for measuring program results such as whether a worker found a job. Two states' officials told us that they are unable to submit complete employment and wage information because they rely on worker surveys for much of this information, and workers often do not return the surveys. In addition, many states do not validate the participant information submitted to the Department of Labor.[11]

In managing their programs, state and local employment officials often did not use information from the participant tracking system. For example, in a 2000 survey of 12 states, the Department of Labor found that 6 did not provide participant data to state management and program staff and to

[9]See *Dislocated Workers: Trade Adjustment Assistance Program Flawed* (GAO/T-HRD-94-4, Oct. 19, 1993).

[10]Department of Labor officials told us in September 2000 that only one state currently does not submit participant tracking data.

[11]The contractor that manages the system performs simple edit checks on the data. However, this editing process is only designed to identify data that do not fit into established parameters, such as extremely high hourly wages.

local office staff for review and feedback. At a local state employment office in San Fernando, California, that serves a large number of trade-impacted workers, officials were not aware of how many of its clients had found jobs and at what wages, even though the workers had submitted such information to California's participant tracking system.

The Department of Labor intends to institute a new participant tracking system for all displaced worker programs in fiscal year 2001, including TAA and NAFTA-TAA, that will rely on data in the states' unemployment insurance wage database. The Department believes that the new system will eventually eliminate the gaps in NAFTA-TAA and TAA participant reporting. In our state survey, we found that four do not have the systems in place to extract employment and wage information from wage records for the new participant reporting system. Representatives from the Interstate Conference of Employment Security Agencies suggested that states may not have sufficient funds to develop these new systems.

Reemployment and Wage Maintenance Results

The Department of Labor's goal in 1999 for TAA and NAFTA-TAA was that 72 percent of program participants will be employed upon termination from the program. For the 10,036 participants who terminated (were no longer using any program benefits or services) either program in fiscal year 1999, states submitted gave information on employment status for 5,969. Of the participants for whom employment data are available, 75 percent obtained jobs upon leaving the programs, and only 56 percent obtained jobs earning at least 80 percent of their pre-separation wage. Table 3 provides additional data on outcomes for workers who participated in training or had training waivers.

Table 3: Trade Adjustment Assistance Program Outcomes for Workers Who Participated in Training or Had Waivers, Fiscal Year 1999

Program outcomes for participants in training or had waivers	TAA	NAFTA-TAA
Participants who completed training		
Entered employment	2,195 (78%)	763 (80%)
Average hourly wage	$9.82	$9.73
Percent meeting wage goal	56%	58%
Participants who received but did not complete training		
Entered employment	602 (69%)	152 (69%)
Average hourly wage	$9.52	$8.36
Percent meeting wage goal	55%	61%
Participants who had training waivers and received training		
Entered employment	287 (83%)	N/A
Average hourly wage	$9.63	N/A
Percent meeting wage goal	45%	N/A
Participants who had training waivers and did not receive training		
Entered employment	543 (63%)	N/A
Average hourly wage	$7.96	N/A
Percent meeting wage goal	56%	N/A

Legend
N/A - Training waivers are not available under NAFTA-TAA.

Note: Average hourly wages were calculated for workers who reported an hourly wage and at least 35 hours of work a week in their new job.

Source: GAO analysis of Department of Labor data.

As shown in table 3, participants who received training entered employment at a higher rate and had higher average hourly earnings than participants who did not participate in training. The difference in average hourly wages among participants who completed training and those who received only some training is relatively modest. TAA participants with training waivers and who did not receive any training had the lowest average hourly wage when reemployed, just under $8 an hour, although 56 percent of these workers did earn 80 percent of their prior wages. These data should be interpreted with caution because of the limited numbers of participants they represent, however.

Budgetary Implications of Extending TAA Benefits to New Groups of Workers

We estimate that there could be significant budgetary implications if the eligibility criteria for TAA were changed to include secondarily impacted workers and workers whose companies relocate to countries other than Mexico or Canada. We developed these estimates in consultation with federal government experts.[12] (This section briefly presents key assumptions and methods; see app. II for a more in-depth discussion of these issues).

As shown in table 4, expanding the Trade Adjustment Assistance program to include secondary workers and all workers whose companies relocate abroad could add an estimated 34,000—211,000 workers annually between 2001 and 2005 and cost from $89 million to $554 million per year. Our analysis shows that extending TAA coverage to secondary workers could result in an increase of approximately 2,000—149,000 certified workers per year between 2001 and 2005. The annual costs of adding these workers (assuming approximately 25 percent of certified workers take up training and other services and benefits) during this period would range from approximately $5 million to $392 million.

Table 4: Estimates of the Impact of Extending Trade Adjustment Assistance to New Worker Groups—Projection 2001-2005 Annual Average

Dollars in millions

Extending coverage to include	Estimated annual number of additional certified workers		Estimated annual cost[a]	
	Low	High	Low	High
Secondary Workers	2,000	149,000	$5	$392
Production relocation	32,000	62,000	$84	$162
Total	**34,000**	**211,000**	**$89**	**$554**

[a]Costs are based on Department of Labor estimates that approximately 25 percent of certified workers take training and other benefits at an average cost of $10,500 per worker.

Source: GAO analysis.

[12]We discussed the assumptions we used with officials from the Department of Labor, the Congressional Budget Office, and the Office of Management and Budget.

In developing our estimate of the number of additional secondary workers that may be certified, we noted that under NAFTA-TAA only 1.3 percent of certified petitions have been for secondary workers (58 petitions covering 3,718 workers). If worker certification under TAA follows a similar trend, the impact of extending TAA coverage to secondary workers will be closer to the lower-end estimate of about 2,000 workers per year. Our high estimate was based on Department of Labor calculations of labor use in manufacturing, which assume that each manufacturing job supports another 0.95 of a job in a supplier industry. Our discussions with Department of Labor and state officials indicate that many secondarily impacted workers may not be aware that they may qualify for NAFTA-TAA benefits. A broader interpretation of "secondary" or a more aggressive outreach effort on the part of the Department of Labor to identify and certify secondarily affected workers could increase the number of eligible workers.

Also, as illustrated in table 4, extending TAA eligibility to workers who lose jobs solely due to the relocation of production to countries other than Mexico or Canada would expand the program, but to an uncertain degree as well. Such a change in eligibility criteria could add an estimated 32,000—62,000 workers each year between 2001 and 2005, resulting in potential cost increases between $84 million and $162 million annually. The high and low estimates depend on assumptions of different rates of growth in the programs. These estimates are based on recent trends in program certification and Bureau of Labor Statistics data on mass layoffs due to plant relocation abroad. They are highly sensitive to the rate at which firms move manufacturing jobs abroad in search of less expensive labor and other inputs. For example, recent trade legislation could increase imports of apparel and other manufactured goods from China, sub-Saharan Africa, and the Caribbean basin, but it is difficult to anticipate how many firms will relocate to these countries. However, prior to this legislation, Bureau of Labor Statistics data indicated that there is an increasing trend toward relocation to countries other than Mexico and Canada. Thus, extending TAA benefits to workers who lose their jobs due to relocation of production to other nations can be expected to have at least a moderate impact on the program.

Department of Labor officials said that based on their experience with NAFTA-TAA certifications, they believe that many workers certified under shifts in production would at a later time be certified as affected by imports. Thus, in their opinion, certification under the original criteria actually covers many of the workers who are laid off due to relocation.

They estimate that increases in TAA certification due to changing the criteria will be about 8,000 workers per year (less than our low-end estimate of 32,000 additional certified workers).

Several state officials we surveyed expressed support for expanding TAA coverage to more groups of workers. They emphasized that this could only be done if TAA funding is increased. For example, Kentucky officials estimate that extending TAA coverage to secondary workers would more than double training costs. They noted that their allocation for training programs from the Department of Labor has been inadequate for covering existing eligible workers.

Issues Regarding Delivery of Program Services and Benefits

In reviewing the TAA and NAFTA-TAA programs, we identified three issues that affect the delivery of assistance to trade-impacted workers. These issues are the following: (1) differences in the programs' statutory requirements governing certification and training enrollment complicate program administration and prevent some workers from entering suitable training; (2) the absence of a statutory time limit on training in TAA and some other benefits means that workers may collect benefits many years after being certified as trade impacted; and (3) internal control weaknesses may result in workers getting benefits that they are not eligible to receive. Table 6 provides a comparison of the TAA and NAFTA-TAA programs and highlights some of the key differences in the programs.

Table 5: Comparison of the TAA and the NAFTA-TAA Programs

	NAFTA-TAA	TAA
Certification		
What legislative time frames have been established for completing certification decisions?	A preliminary eligibility ruling is made by the state Governor within 10 days of filing, and a final DOL decision is required within 30 days of receiving the state decision, for a maximum of 40 days	A DOL decision on eligibility is required within 60 days
Are secondary workers eligible?	Yes, under the Workforce Investment Act	No
Are workers eligible whose company relocates abroad?	Yes, if the company moves to Mexico or Canada	No
Are farmers eligible?	Yes	Yes
Training and other benefits		
Can training be waived?	No	Yes, under certain circumstances
Are there training enrollment deadlines to qualify for trade readjustment allowances?	Yes. Claimant must start training by the 16th week to be eligible for income support after their initial unemployment insurance eligibility or the 6th week after eligibility certification	No
Are benefits paid during breaks in training longer than 14 days?	No	No

Legend
DOL = Department of Labor

Source: TAA and NAFTA-TAA program regulations and legislation.

Rules for Certification and Training Enrollment Not Standardized

State officials we contacted believe that administering these programs is hampered by the separate certification procedures and different training enrollment requirements. Several state officials said that requiring separate and distinct certification procedures for TAA and NAFTA-TAA was administratively inefficient and slowed the certification process. Under current law, TAA petitions are received and processed by the Department of Labor, while NAFTA-TAA petitions are submitted to the state agency in which their plant is located. The states are required to make a preliminary determination regarding eligibility before forwarding their findings to the

Department of Labor for a final determination. State officials said this process burdens petitioners and delays certifications.

Certification delays have been a problem for both programs, according to our analysis of Department of Labor certification data. NAFTA-TAA and TAA certifications are required by law to be completed in 40 and 60 days, respectively. In 1999, NAFTA-TAA investigations on average took 54 days, with 58 percent of investigations exceeding the 40-day requirement. That same year, TAA investigations averaged 51 days, with 34 percent exceeding the required 60 day limit. Department officials stated that NAFTA-TAA certifications take longer because the Department's phase of the investigation cannot begin until the states submit their preliminary determinations. Department officials also noted that completing customer surveys necessary to determine if imports have contributed importantly to layoffs adds time to investigations.

State officials were critical of the enrollment deadlines to qualify for income support in the NAFTA-TAA program. Under NAFTA-TAA, in order to qualify for transition readjustment benefits, a worker must enroll in an approved training program by (1) the last day of the 16th week of their most recent qualifying separation or (2) the last day of the 6th week after publication of the certification in the Federal Register, whichever is later. The TAA program does not have this requirement. According to some state officials, the stringent NAFTA-TAA requirement limits the training options for workers who only qualify for this program. In some cases, appropriate training courses are not scheduled to begin within the enrollment deadline, so workers choose to take less suitable courses to retain eligibility for income support.

TAA Training Benefits Lack Enrollment Deadlines

Training provided under the TAA program is "open ended" in that workers covered by a certification can take their training any time—as long as they meet all six criteria for approval of training. [13] Department of Labor officials said this policy is consistent with the Trade Act of 1974, which does not specify training enrollment time lines. Further, workers may

[13]The six criteria specified in the TAA program regulations are the following: (1) there is no suitable employment available, (2) the worker would benefit from appropriate training, (3) there is reasonable expectation of employment following training completion, (4) training is reasonably available to the worker from either government agencies or private sources, (5) the worker is qualified to undertake and complete such training, and (6) such training is suitable for the worker and available at a reasonable cost.

receive 26 weeks of "additional" trade readjustment payments during that training, as long as they complete a training plan within 210 days of the certification, or if later, within 210 days of separation.[14] In fact, Department data show that some workers have taken TAA-sponsored training many years after being certified as trade impacted. For example, we found that the states reported almost $2.7 million in training expenditures and almost $340,000 in income support payments from fiscal years 1997 to 1999 for workers whose TAA petitions were certified in 1992 or earlier. We also found that expenditures were reported in the same period for workers certified as early as 1978. These data suggest there can be a considerable lag between layoff and the use of program benefits such as training.

Officials in six of the states we surveyed also believed that trade readjustment assistance payments should be provided to workers during their entire training period. Under current law, workers can be approved for training up to 104 weeks but are only entitled to cash benefits for a maximum of 78 weeks, including unemployment compensation. According to Georgia officials, workers are likely to drop out of training when their cash benefits are exhausted.

Program Consolidation May Provide Standardization

State officials included in our survey believe that consolidating the NAFTA-TAA and TAA programs—as proposed in the President's fiscal year 2001 budget and two bills introduced in Congress[15]—could help standardize the rules governing certification and enrollment requirements. All 20 states we surveyed favor consolidation of TAA and NAFTA-TAA. Specific reasons cited for supporting consolidation were because it would make program management easier and make it less confusing for workers to apply for certification and benefits. According to Florida officials, consolidation would result in "one set of rules, less confusion in training of program staff, [and it would make it] easier to report budgets because currently the programs are considered as two separate grant programs."

Many of the state officials we surveyed believe consolidation would only be acceptable if the less restrictive TAA rules on training deadlines were adopted. Some of these state officials also indicated that some rules

[14]Labor officials said that the additional trade readjustment allowance must follow exhaustion of the basic trade readjustment allowance or, if the basic allowance was never paid, the start of the approved training program.

[15]Proposals were introduced in the first session of the 106th Congress by Senator Daniel Patrick Moynihan (S.220) and Representative Bob Matsui (H.R. 1491).

governing training enrollment in both programs should be changed to allow workers to receive trade readjustment assistance payments for longer periods of time during breaks in training. Under current law for both programs, workers are not entitled to these payments for breaks in training exceeding 14 days. The officials noted that many training providers, such as community colleges, have breaks that last for longer periods. This lag can pose financial hardships for workers who are dependent on this assistance during training. State officials suggested extending the break period to around 30 days.

Internal Control Weaknesses

Our review of the state data found that during fiscal years 1997-99, there were expenditures of almost $1.7 million for training, trade readjustment allowances, relocation, and job search allowances that were reported for 185 TAA and 28 NAFTA-TAA petitions that, according to the Department of Labor database, were not certified. We also found there were reported payments of more than $600,000 in trade readjustment allowances to TAA-certified workers when eligibility for these benefits should have expired. These inconsistencies could be due to data entry errors and may have resulted in payments to ineligible workers. This reveals an important internal control weakness that, if not corrected, could mean that workers collect benefits for which they are ineligible.

Conclusions

The TAA and NAFTA-TAA programs have spent more than $1.3 billion in the past 5 years to help workers make the transition to new jobs, but it is unclear how effective these programs are in achieving their goals. Program management issues we identified—limited program data, slow certification processing, and internal control weaknesses—suggest that Departmental oversight could be strengthened. Improving the Department of Labor's timeliness in processing certification petitions needs to be addressed because such delays can influence workers' decisions about training or career choices. The absence of internal controls such as cross-checks between state and Department of Labor data may have resulted in ineligible workers receiving benefits under the programs. In addition, other challenges facing these programs stem from statutory requirements. Under current law, workers who experience breaks in training of more than 14 days lose their benefits, which state officials report as a barrier to effective service delivery.

The two trade adjustment assistance programs are also administered under differing rules that make program administration challenging for state

officials and confusing to workers. The current deliberations regarding program consolidation offer the opportunity to consider making program improvements. With regard to standardizing rules, worker retraining, perhaps the key program benefit, is believed by state officials to be hampered by tight time frames for qualifying for income support under NAFTA-TAA, while there are none under TAA. Individuals can also delay training for years after being laid off under TAA, raising questions not only about the timeliness and usefulness of adjustment assistance but also leaving open the possibility that some people could return for training years later. Training waivers, available under TAA, are believed by state officials to give workers important flexibility, yet there is concern that waivers may have been abused. In addition, workers with waivers had poorer wage and employment outcomes than workers without them.

Recommendations for Executive Action

To improve the effectiveness of the TAA and NAFTA-TAA programs in helping workers displaced by international trade adjust to changed economic conditions, we recommend that the Secretary of Labor

1. establish an effective performance measurement system to track participant outcomes and then disseminate that information to the states and localities so they can better serve participants,
2. establish procedures that will enable the Department to certify workers for TAA and NAFTA-TAA within required time frames, and
3. establish more effective internal controls and improve oversight with regard to benefit payments by states in order to prevent workers ineligible for benefits from receiving them.

Matters for Congressional Consideration

As part of its current deliberations about consolidating or restructuring the TAA and NAFTA-TAA programs, Congress may wish to consider whether workers who experience an unavoidable break in training of more than 14 days (such as semester breaks) should continue to receive income benefits.

Congress may also wish to simplify the administration of the TAA and NAFTA-TAA programs by standardizing

- time frames for workers to enter training,

- training waiver policies for certified workers, and
- time frames for completing certification investigations.

Agency Comments and Our Evaluation

We received written comments on a draft report from the Department of Labor, which are reprinted in appendix III. The Department of Labor generally agreed with many of the report findings but did not respond to our recommendations. Labor said in its letter that it supported congressional efforts to harmonize the statutory requirements of the Trade Adjustment Assistance and the NAFTA Transitional Adjustment Assistance programs and indicated that many of the issues identified in the report would be corrected by the passage of such legislation. In addition, the Department of Labor provided technical comments, which we incorporated in the report as appropriate.

The Department of Labor expressed some concerns about our presentation of the trends in service and benefit utilization and indicated that the total number of program participants has increased by 15 percent from 1995 to 1999 even though the participation rate of eligible beneficiaries declined over the same period. Labor believed that taken out of this context, the low percentage of program participation could be misleading. Labor also noted that during good economic times the takeup rate (rate of eligible workers seeking program services and benefits) would likely be lower as eligible workers are able to find jobs more readily. We agree with the Department of Labor that the number of program participants increased between 1995 and 1999 and have included this information in our report. We agree, as noted in our draft report, that during good economic times the rate at which eligible workers seek program services and benefits are likely to be lower as eligible workers may find it easier to obtain new jobs.

The Department of Labor also asserted that our report missed some key points in our discussion of the limited performance data used by Labor to demonstrate reemployment success. Labor emphasized that there is no statutory basis for gathering performance information. Despite this "omission," the Department indicated that it has developed and implemented a program performance reporting system and program performance goals drawing on the 1993 Government Performance and Results Act (GPRA). Labor said the data collected are preliminary, and it has taken steps to ensure that states are reporting program information to Labor. We believe this is a positive step as this is a concern that we have identified for a number of years. However, as Labor notes in its letter, the system is still being developed and refined. Therefore, it is too early to

determine whether the new systems will provide the necessary information to states and localities to better serve program participants.

The Department of Labor said our estimates of the impact of extending the TAA program to workers whose companies shift production to countries other than Mexico or Canada are higher than the Department's estimates because we did not include an adjustment for instances where production is shifted overseas but the articles produced there are subsequently imported back into the United States. We did not include such an adjustment in our analysis because of the methodological difficulties associated with modeling the effects of this scenario. Although Labor included the estimated impact of such an adjustment in their comments, the Department could not describe the analytical basis used to support their estimates. We included the Department of Labor information in our report with the caveat that it is a Labor estimate. However, we do not explain or comment upon the methods used to derive it.

The Department of Labor also said it was particularly concerned that in our discussion of internal control weaknesses, we did not discuss new procedures that the Department established in fiscal year 2000 to review and cross-check reported petitions, and to deal promptly with any discrepancies. While the Department told us that they have instituted new procedures to cross-check expenditures to petitions, they did not provide us with any supporting documentation of these new procedures in response to our request, i.e., when they were specifically implemented and the extent to which they cover these transactions. Therefore, we are unable at this time to determine if these new procedures will adequately address the shortcomings we raise in this report.

We are sending copies of this report to appropriate congressional Committees and to the Honorable Alexis Herman, Secretary of Labor. We will also make copies available to other interested parties upon request.

Please contact me at (202) 512-4128 if you or your staff have any questions concerning this report. Other GAO contacts and staff acknowledgments are listed in appendix IV.

Susan S. Westin

Susan S. Westin
Managing Director
International Affairs and Trade

Characteristics of Trade Adjustment Assistance-Certified Workers Who Received Program Benefits, Fiscal Year 1999

Worker characteristics	TAA	NAFTA-TAA
Gender		
Men	35%	34%
Women	65	66
Race		
White	62%	43%
Black	15	9
Latino/Hispanic	20	47
Limited English proficiency	21%	30%
Average wage at separation	$11.33	$10.45
Average age	43	41
Education		
Less than high school	26%	34%
High school graduate	51	44
Some post high school	15	17
College graduate	4	4
Average tenure at separation	8.7 years	7.5 years

Source: GAO analysis of Department.

Objectives, Scope, and Methodology

The Chairman of the Senate Committee on Finance and the Ranking Member of the Committee asked us to examine (1) recent trends in worker certifications and the extent to which program services and benefits have been used, (2) the extent to which the program helped workers become reemployed and maintain prior wages, (3) the budgetary implications of extending program benefits to new groups of workers, and (4) program management issues. To address the first and second objectives we obtained and analyzed several types of Department of Labor data. These included quarterly data from fiscal years 1995 to 1999 on services provided to participants under each Trade Adjustment Assistance (TAA) and North American Free Trade Agreement Transitional Adjustment Assistance (NAFTA-TAA) program certified petition. We then matched this information with the Department's database of certifications in order to check on internal controls. We focused on data from fiscal years 1995 to 1999 because Department officials said information from earlier years had not been carefully collected or reviewed. We also obtained participant outcome data collected by the Department for 1999 and analyzed it, focusing on demographic characteristics, wages, training, and reemployment.

We addressed our third objective, regarding the potential budgetary impact of expanding benefits to secondary workers and workers whose job relocates to countries other than Canada or Mexico under TAA, by first consulting with officials from other agencies about assumptions used in making prior estimates of program expansion. These included representatives from the Congressional Budget Office and the Office of Management and Budget and Department of Labor officials from the Employment and Training Administration and the Bureau of Labor Statistics. In order to estimate the impact on changes in TAA eligibility criteria, we first had to project potential growth in the programs that may occur without changing the existing criteria. We assumed a high and a low growth rate in the programs to yield a range of estimates. Our projected growth rates for these programs are based on methodologies developed by agencies that traditionally estimate the future costs of federal programs. The low growth rate estimate assumes that 2000-2001 certifications will equal the 1997-99 average annual certifications and a return to the lower 1996-98 program average rates of certification (110,000 TAA certified workers and 53,000 NAFTA-TAA certified workers per fiscal year for fiscal years 2003-05). Our high-end estimates assume sustained growth rates in the programs of 6.5 percent per year for TAA certifications and a 10-percent annual growth rate for NAFTA-TAA.

To estimate the possible impact of extending TAA coverage to workers whose firms relocate to countries other than Canada or Mexico, we first consulted the Bureau of Labor Statistics' annual data on mass layoffs due to plant relocation outside the United States (mass layoffs are defined as 50 or more workers separated from a firm during a 5-week period). These data indicate that about 50 percent of the mass layoffs reported in 1997-99 were due to relocation to Mexico and Canada; the remaining 50 percent were due to firms' relocating to other countries. Since experience with NAFTA-TAA certifications showed that about 60 percent of the certifications under the program were due to relocation of firms to Mexico and Canada,[1] we assumed that the same number of workers could be expected to be certified under TAA if coverage were extended to workers laid off due to plant relocation to other countries.[2] This method gives us a high of 62,000 additional workers per fiscal year and a low estimate of 32,000 per fiscal year. Some officials whom we consulted at the Department of Labor thought that the method above may lead to an overestimation of additional TAA workers when relocation of production is part of the eligibility criteria.

In estimating the effect of extending eligibility to secondary workers, we again formed our high- and low-end estimates based on projected growth rates in the program. Then, we gave two scenarios in terms of how many workers would be identified as "secondarily impacted." The first scenario, based on the experience of the NAFTA-TAA program (fiscal year 1994 to the first quarter of fiscal year 2000), estimated that secondary workers covered by TAA would represent 1.3 percent of all certifications. The second scenario, based on Department of Labor calculations using Bureau of Labor Statistics data on labor use in manufacturing, assumed that each manufacturing job supports another 0.95 of a job in a supplier industry. The first assumption gives a minimal expected increase of approximately 2,000 workers (even in an environment of high program growth), and the second assumption practically doubles the number of TAA-certified workers each year. Unless the Department of Labor significantly increases its outreach to secondarily affected workers and broadly interprets the meaning of

[1]Although this ratio increased during 1995-99, we assume that it will stabilize to about 60 percent in future years.

[2]The proportion of layoffs due to relocation to countries other than Canada and Mexico has been growing since 1997, and 50 percent may represent a conservative estimate for the 2001-05 period.

"secondarily affected," it is likely that the number of secondary workers that would be certified would be closer to the low-end estimate.

To address our fourth objective regarding program management issues, we surveyed 20 states. We selected these states using the following method: we ranked them based on the number of workers certified as eligible for both programs from fiscal year 1994 through the first quarter of fiscal year 2000. Then, for each program, we choose the 15 states with the greatest number of certified workers. There was some overlap between the TAA and NAFTA-TAA lists, resulting in 19 states (one state that fell outside this range received a survey, and we included this response in our analysis). We had a 100-percent response rate for the survey.

In order to have a better sense of how these programs are operating in the states, we also visited local program offices in El Paso, Texas, and San Fernando, Los Angeles County, California. El Paso has had many trade-related job losses in the mid- to late-1990s and provided an example of the challenges facing trade adjustment assistance programs more generally. The San Fernando community was visited by our staff from our Los Angeles, California, office after consulting with state officials. We also reviewed prior evaluations by GAO,[3] the Department of Labor's Inspector General, and government contractors. In addition, we obtained the Department of Labor's certification data in order to analyze the time needed to review petitions. This part of the analysis focused on certification timeliness.

To understand TAA and NAFTA-TAA certification procedures, regulations, and data, and how the Department has addressed previous recommendations, we met with Department of Labor program administrators. We also reviewed a sample of 20 TAA and NAFTA-TAA certification files to verify the procedures and data used. We selected the files for broadwoven fabric textile petitions considered in fiscal year 1999 and the first quarter of fiscal year 2000 because there were relatively equal numbers of certified and denied cases, and both TAA and NAFTA-TAA primary and secondary certifications were represented. This provided the opportunity to review cases from the same sector with different outcomes. We also analyzed the Department of Labor's 1999 participant data report to determine whether it contains reliable information that can be used to measure program results.

[3]See Related GAO Products section.

We conducted our work from March through August 2000 in accordance with generally accepted government auditing standards.

Comments From the U.S. Department of Labor

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210

OCT 5 2000

Ms. Susan S. Westin
Associate Director
International Relations and
Trade Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Westin:

Thank you for the opportunity to comment on the draft report - Trade Adjustment Assistance: Trends, Outcomes and Issues in Dislocated Worker Programs. The following are Employment and Training Administration's (ETA) comments:

First, we would generally concur with many of the draft report findings. We would like to point out that the Department of Labor participated in the development of the legislation introduced by Congressmen Matsui and Bonior and Senator Moynihan. The Administration proposed, in its budgets for fiscal years 1999, 2000, and 2001, the changes that harmonize the statutory requirements of Trade Adjustment Assistance (TAA) and the NAFTA - Transitional Adjustment Assistance (NAFTA-TAA) programs. We feel strongly that many of the issues identified in the report would be corrected by the passage of such legislation. It would standardize the processing of petitions including a standard time for issuance of decisions. It would establish standard enrollment in training requirements for obtaining trade readjustment allowances and provisions for waivers of training requirements. Additionally it would provide for an increase of training dollars that could alleviate what has become added pressure on the statutorily imposed cap on training funds which, we feel, has caused States to establish waiting lists or otherwise limit access to training. It would raise the statutorily-imposed 14 day break in training requirement to 30 days, and it would establish a statutory basis for performance reporting, something which does not exist in the current statute.

See comment 1.

Pages 4 and 16 of the draft report indicate that States encounter training waiting lists or they shutdown training programs due to delayed funding for training from DOL, and that this may be a quarterly fund disbursement issue. The report needs to recognize that funding delays have occurred either primarily in the first quarter of the fiscal year or the last quarter of the fiscal year.

BEST COPY AVAILABLE

In the first quarter, we have occasionally had to deal with Continuing Resolutions rather than receiving full appropriations, which has limited the funds we are able to make available to the States until full appropriations are received. During the last quarter of the fiscal year, we begin to approach the statutorily-imposed cap on training funds, which has not been increased for the TAA program since 1988. In the last few years, we have received State requests for training funds early in the fourth quarter which, coupled with the funds allocated in prior quarters, exceed the statutory cap. Consequently, full funding actions must be delayed until the new fiscal year. States are encouraged to seek other funds through the Workforce Investment Act (WIA) National Emergency Grant process to prevent shutting down the program or putting eligible participants on waiting lists because of shortfalls in trade program training monies.

See comment 2.

Pages 12 through 14 of the draft report discuss the trends in benefit utilization. The report states that the percentage of workers using benefits available to them declined because of a sharp increase in the number of eligible workers in 1999. We believe that looking at the numbers without some context may be misleading. While the sheer numbers do show the declines as reported, the number of participants in the program actually increased by 15 percent from 1995 to 1999. Additionally, we would expect that during good economic times the take-up rate (rate of eligible workers seeking program services and benefits) would likely be lower as eligible workers are able to find jobs a lot more readily.

See comment 3.

On pages 14 and 15, the draft report discussion on training needs highlights the significant emphasis on English as a second language (ESL) classes for many trade affected workers. (We believe this reference may relate primarily, if not solely, to the State of Texas which has stringent State ESL requirements.) The implication of the discussion is that utilizing training time and dollars for the ESL classes may not allow for occupational training. It should be noted that the DOL has recognized this as a concern and has worked with areas, such as El Paso, to allocate dollars from the Joint Training Partnership Act/WIA dislocated worker program to assure that eligible dislocated workers get occupational training in conjunction with and not in lieu of ESL.

See comment 4.

On pages 17 through 19, the report cites that limited performance data indicate some reemployment success. The section goes on to discuss DOL's problems in tracking TAA and NAFTA-TAA benefits and results. While noting that DOL has made progress in addressing

BEST COPY AVAILABLE

deficiencies reported by GAO and OIG previously, it misses some key points. First, the current programs do not have any statutory basis for gathering performance information. However, despite this omission, DOL, drawing on the Government Performance Results Act (GPRA), developed and implemented a program performance reporting system and program performance goals. We worked with States in developing such a system which began gathering program results information for the first time in Fiscal Year 1999. Next, the data gathered in Fiscal Year 1999 should be treated as preliminary because, as with any system operating for the first time, reporting system bugs will need to be worked out. Third, during Fiscal Year 1999, the ETA Office of the Assistant Secretary sent letters to those States that were delinquent in reporting program outcomes data. As of Fiscal Year 2000, all but one State is reporting program information to us. Lastly, we would note that the proposed trade reform legislation would make performance reporting a requirement to be done in conjunction with other dislocated worker reporting pursuant to the WIA.

See comment 5.

The Section beginning on page 22 through 25 of the draft report deals with the estimated costs of extending the TAA program to new groups of workers - secondarily impacted workers and workers whose companies relocate to countries other than Mexico or Canada. On the issue of shift in production, we would note that GAO's estimates are much higher than estimates that were calculated in connection with the budget proposal for the trade reform legislation. Our estimates totaled $22 million annually to cover shift in production to countries other than Canada and Mexico based on an estimated 8,000 workers impacted. While page 24 provides a range of costs for broadening the shift in production certification criterion, that range is not adjusted for those instances where production is shifted overseas but the articles produced there are subsequently imported back into the US. In industries such as apparel, this is a very common occurrence and without an adjustment for this factor we believe GAO's estimated cost range is too high.

See comment 6.

On page 27 of the draft report, there is discussion about the time frames for petition completion for TAA and NAFTA-TAA in Fiscal Year 1999. The discussion, however, does not mention the huge increase in the number of petitions that occurred in Fiscal Year 1999. The number of petitions increased by 79 percent from 1998 to 1999 and was the third largest number of petitions in a single year since the program began. Additionally, the increased caseload of petitions was handled by the same staff resource levels in 1999 as existed in 1998.

BEST COPY AVAILABLE

It should be acknowledged that the investigation times for Fiscal Year 1999 were in some way impacted by this large caseload increase.

See comment 7.

On page 28, regarding the numbers shown for the cost related to some workers receiving training and income support payments many years after being certified ($1.6 million and $1 million, respectively), the report needs to recognize the insignificance of this number. It represents 0.3 percent of total expenditures during this period. We would also disagree with your conclusion on this finding on page 32 where you note that such training delays could have significant budget implications. First, we think the numbers are/or would be minimal and secondly the existence of statutory caps on Trade program training funds would prevent any significant budget issues.

See comment 8.

We are particularly concerned that in the internal control weaknesses discussion on page 30, the draft report cites that no internal control process to cross-check expenditures to petitions could lead to misexpenditures of funds. In Fiscal Year 2000, the Division of Trade Adjustment Assistance instituted procedures to timely review and cross-check reported expenditures to petitions and promptly deal with any discrepancies by going back to the States to determine if data entry errors occurred or mispayments were made. In the latter case, the States will be required to seek refunds of any payments to ineligible workers.

Our technical comments have been discussed with your staff and have been transmitted under separate cover.

If you have questions regarding these comments, please contact Jaime G. Salgado at (202) 219-5731 ext. 111.

Sincerely,

Raymond L. Bramucci

BEST COPY AVAILABLE

The following are GAO's comments on the Department of Labor's letter dated October 5, 2000.

GAO Comments

1. We revised the report to indicate that the Department of Labor believes the funding disbursement problem with states primarily occurs at the beginning and end of the fiscal year.

2. We agree with the Department of Labor that the number of program participants increased between 1995 and 1999 and included this information on page 14 and 15 of our report. We also agree that during good economic times the rate at which eligible workers seek program services and benefits are likely to be lower as eligible workers may find it easier to obtain new jobs. We noted this in our draft and in this report.

3. Our report notes the significant emphasis on English as a second language (ESL) or remedial instruction for many trade affected workers. Although the Department of Labor suggested that this reference may relate primarily, if not solely, to the State of Texas which has stringent State ESL requirements, the information in our report was based on information we gathered from several states. Specifically, as noted on page 15 of the report, 6 of the 20 states we surveyed said that ESL or remedial instruction is among their top 3 course offerings to dislocated workers. Moreover, we did not intend to imply in our report that eligible dislocated workers receive ESL instruction in lieu of occupational training.

4. We agree that in 1999 the Department developed and implemented a program performance reporting system drawing on the Government Performance Results Act (GPRA). We believe this is a positive step as this is a concern that Labor's Inspector General and we previously identified. However, as Labor indicates, the information provided by this system should be considered preliminary because system "bugs" still need to be worked out. Thus, it is too early to determine if the new system will provide complete information necessary to judge program results. Labor did not indicate if this new system would provide outcome data to states, which is a current deficiency we discuss in this report.

5. We recognize that the criteria for TAA program eligibility currently covers a proportion of workers who were originally displaced when their firms shifted production abroad (these workers would be certified

as eligible when imports of the same product entered the United States). However, we do not have sufficient data or a methodology to account for how many TAA certified workers would be covered by this scenario. Although we included the Department's revised estimate in our report, we cannot explain or comment upon the methods used to derive it.

6. We disagree with the Department of Labor's assertion that the 1999 caseload increase influenced investigation times. Our analysis of the Department's data indicates that certification review times in fiscal year 1999 did not differ significantly from prior years. For TAA petitions, the average determination time has exceeded the 60-day limit in 4 of the past 5 fiscal years. Additionally, while the percentage of determinations that exceeded the 60-day limit reached a high of 34 percent in1999, in fiscal years 1997 and 1998 over 25 percent of determinations also took longer than 60 days. For NAFTA-TAA petitions, investigations have also consistently exceeded the statutory limit of 40 days each fiscal year since 1997, and timeliness has been decreasing since the program's inception, not just in 1999. In fiscal year 1996, for example, 62 percent of the NAFTA-TAA determinations were completed in 40 days or less; this proportion decreased to a low of 38 percent in fiscal year 1998 and increased slightly to 42 percent in fiscal year 1999.

7. We agree that this is a small portion of the overall budget and revised the text by removing the references to the budgetary implications.

8. The Department of Labor told us that it has introduced new internal control procedures and identified $2.5 million in questionable payments. However, it was unable to provide us with any specifics on these internal controls at our exit conference on September 27, 2000, i.e., when exactly they were put in place and how they are used. Thus, we believe that more time is needed to judge whether they have fully corrected the internal control problems that we identified.

GAO Contacts and Staff Acknowledgments

GAO Contacts

Stephen Lord, (202) 512-4379
Phillip Herr, (202) 512-8509

Acknowledgments

In addition to those named above Samantha Roberts, Edward Laughlin, Larry Thomas, Rona Mendelsohn, and Mary Moutsos made key contributions to this report.

Related GAO Products

NAFTA-TAA Program: Certification Criteria, Procedures, and Activity (GAO/NSIAD-98-51R, Nov. 4, 1997).

Dislocated Workers: An Early Look at the NAFTA Transitional Adjustment Assistance Program (GAO/HEHS-95-31, Nov. 28, 1994).

Dislocated Workers: Trade Adjustment Assistance Program Flawed (GAO/T-HRD-94-4, Oct. 19, 1993).

Dislocated Workers: Proposed Re-employment Assistance Program (GAO/HRD-94-61, Nov. 11, 1993).

Dislocated Workers: Comparison of Assistance Programs (GAO/HRD-92-153BR, Sept. 10, 1992).

Dislocated Workers: Improvements Needed in Trade Adjustment Certification Process (GAO/HRD-93-36, Oct. 19, 1992).

Information on the 1974 Trade Act Worker Adjustment Assistance Program Certification Process (GAO/HRD-82-121, Sept. 10, 1982).

Ordering Information

The first copy of each GAO report is free. Additional copies of reports are $2 each. A check or money order should be made out to the Superintendent of Documents. VISA and MasterCard credit cards are accepted, also.

Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:
U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

Orders by visiting:
Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders by phone:
(202) 512-6000
fax: (202) 512-6061
TDD (202) 512-2537

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

Orders by Internet:
For information on how to access GAO reports on the Internet, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web home page at:

http://www.gao.gov

To Report Fraud, Waste, or Abuse in Federal Programs

Contact one:

- **Web site: http://www.gao.gov/fraudnet/fraudnet.htm**
- **e-mail: fraudnet@gao.gov**
- **1-800-424-5454 (automated answering system)**

PRINTED ON RECYCLED PAPER

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested

BEST COPY AVAILABLE